

Key Statistics

Code : REDT
Listing : AIM
Sector : Security Services
Market Cap : £12.53m
Share in issue : 48.98m
Current Price : 25.50p
12 month High/Low : 32.00p/9.50p

Stock Performance



Source: InvestEgate

Financials y/e March

£'m	2015	2014	2013	2012
Revenue	5.95	5.89	5.36	5.82
PBT	1.07	0.86	0.78	0.86
Profit	0.89	0.83	0.76	0.75

Source: Red24 plc Final Results

Company description

Red24 is a crisis assistance company that provides a range of security and business support services, offering preventative and reactive advice to help organisations and individuals avoid or manage security and business risks to themselves, their families and their businesses.

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Crisis, What Crisis?

It is fitting, and reassuring, that a company that specialises in crisis management should manage its own crisis with such aplomb. The problem stemmed from the loss of Red24's largest customer in August of its last financial year ending 2015. Management's rapid response to reduce costs and bring in new business goes most of the way to explaining the Houdini like performance in profits; a strong dollar was also helpful. The customer loss mostly impacted the last quarter, so the really tough comps will be for the first half of this year. Interims should be out around third week of November. In any event the worst is behind red24.

- **FY 2015 Sales up 1%, profits up 25%**
- **Profitable and scalable dividend paying business**
- **High barriers to entry / growing market**
- **Dynamic and driven management**
- **Significant USD/GBP impact on profits**

At the heart of red24's business is its 24/7 Crisis Response Management Centre (CRM) in Cape Town. It is staffed every minute of every year. Services range from country-based security and travel risk information to fraud and identity theft prevention advice. red24's global network can also assist clients with setting up crisis management and contingency plans, supplying close protection services, resolving kidnapping and extortion incidents, providing security-focused training and conducting evacuations from countries in turmoil.

By William Lynne - For disclosures, refer to the Disclosure Section

The four primary areas of service can be broken down thus:

- **Travel Assistance (37% Rev)** – this service has been particularly enhanced by investment in the Travel Tracker product.
- **Special Risks (27% Rev)** – dealing with kidnappings and extortion and publishing of the 'Threat Forecast'
- **Consulting & Response (19% Rev)** – Close protection work and evacuation planning services
- **Product Safety (17% Rev)** – *red24 Assist* provides analytical tools and training modules

Most of the Company's subsidiaries are incorporated in the UK, the exceptions being *red24 CRM Pty* and *Silvermine Properties (Pty)* which are incorporated in South Africa and *red24 Inc.* in the US.

The Company had an investment in Linx International Limited – a UK Security Consultant – but that is now being sold down in instalments – the final one due in Aug 2016.

Management, Margins & Model

The management's decisive reaction to the loss of the largest customer has been mentioned above. On losing the significant HSBC business *red24's* management were able to pull out significant costs – largely relating to that business - to re-align the business quickly to ensure profitability was maintained albeit at a lower run-rate and without a hit to shareholder funds. The Directors and related parties control around 50% of the shares and have option incentive schemes too.

Gross margins are around 75% and operating margins around 18%. The group's overhead costs are predominantly from running the South African Crisis Response Management Centre (CRM). The nature of the business (and indeed one of the major barriers to entry) are the fixed costs of this centre. However there is plenty of capacity to scale up the business without significant increase in these SG&A costs, thus improvement to operating margins is highly geared to improvement in sales.

Additionally, the group uses or has access to around 400 consultants around the world. In itself this list can be thought of as 'know-how' in that it is a list that would be very hard for a competitor to replicate quickly or effectively. It is a business that is heavily reliant on trust and on local knowledge and local presence.

The business can be broken very approximately into two segments, **Prevention** – which is the consulting and advisory business where the revenues are high quality and recurring, and **Response** - where revenues are potentially much higher but very lumpy in that they are entirely unpredictable, requiring a change in situation to generate activity. Thus an earthquake in Nepal can trigger high margin activity whereas ongoing lack of security in Syria will not.

Currency

The revenues are drawn from around the world, 48% UK and 30% US. The two overseas subsidiaries have costs in USD and ZAR, and the capex, Topco costs (and dividends) are in GBP. So there is potential for some significant FX based swings in either direction. In the year to March 2015, there was an FX operating gain of £103k but also a Property Plant and Equipment adjustment of £176k in the other direction. The Company estimates that the ZAR costs are offset in large part by the assets. However the USD weakening by 10% would impact profits by around £84k. (FY Mar 2015 post tax profits were £888k) The USD was therefore quite helpful in the year to March 2015 but will not have been so helpful for this fiscal year to date. The Company has used some modest hedging to buy ZAR in the past.

Barriers to Entry and Market

The barriers to entry are in the Know-How and reputation of the staff and Company as well as access to local experts. **red24**s CRM Centre achieved ISO27001:2013 certification in November 2014. ISO27001 is an international standard in information security management. The centre is staffed 24 hours a day, 365 days a year by a dedicated team of multilingual customer service representatives, regional and subject matter analysts, and experienced crisis support specialists. The CRM Centre is housed in a state-of-the-art facility where high-end technology complements around-the-clock intelligence feeds.

In terms of competitors, Hiscox and AIG insist their insurance customers have an exclusive arrangement with **Control Risks** and **NYA International**, who provide security operations to complement their insurance products, which leaves all the other insurance companies as potential customers for **red24**. These three providers dominate the Kidnap & Ransom (K&R) market. Pinkerton offers crisis management planning and emergency services and Kroll focusses more on the consulting and investigative side of the business, where there is less overlap with **red24**. But in all areas there are a plethora of small local and specialist providers who are not so much competitors as potential consultants: Those who have boots on the ground and specialist abilities, but do not have the blue chip global customers.

Whilst it is difficult to estimate market sizes – for all the sub-sets of risk and crisis management - it is apparent that in an increasingly unstable but globalising world the market is large and growing.

Dividends

0.23p was paid in Feb as an interim and 0.27 will be paid as a final dividend giving a yield of around 2.0%.

Outlook

Historically the business has been able to expand organically without the need for acquisitions but the recent acquisition of *Risq Worldwide* in Singapore has significantly enhanced the Company's offering and coverage into Asia and brought with it several blue-chip customers. In the year to March 2015, around 48% of sales came from the UK and 30% from the US. Clearly, there is much scope for further acquisitions particularly in Asia and Rest of Europe, though it is not always immediately clear as to the advantage of acquiring small businesses over simply utilising the teams within them as consultants. That said, there is probably an argument for getting some critical mass with customers in Asia, though it would seem likely that the management would want to bed *Risq* in before making further acquisitions.

Since the full year the Company has also announced that it has been selected to provide Allianz Global Corporate & Specialty, the corporate insurer of Allianz Group, with crisis management services. It is a strong validation in the global presence and competence of the group. It is still too early to guess at numbers that might come from this agreement, but there is clearly significant scope with an organisation the size of Allianz.

Since the year end the USD though strengthening against most currencies has weakened against the GBP by around 5%. If this trend continues it will impact profits.

The two largest customers currently account for slightly over £500k of revenues each, around 10% of the overall revenues so the risk of a similar crisis to last August's is diminished.

Valuation

The share price has rallied from its 10p lows last autumn, to its current level around 25.5p which is slightly off its all-time high of 30p a few weeks ago. However this still only puts it on 14x historic earnings and under 12x this year's broker estimate; neither of which is very testing for a company with high growth prospects and a prospective dividend yield over 2%. With exceptional operational gearing the scope for generating even more cash and dividends from relatively modest improvements in sales is significant.

Consolidated income statement for the year ended 31 March 2015

	2015	2014
	£	£
Revenue	5,947,246	5,886,707
Cost of sales	-1,528,926	-1,354,137
Gross Profit	4,418,320	4,532,570
Administrative Expenses	-3,341,116	-3,653,153
Operating Profit	1,077,204	879,417
Finance Income	13,211	4,498
Finance Costs	-24,017	-29,010
Profit before tax	1,066,398	854,905
Tax Charge	-178,240	-202,592
Profit for the year from continuing operations	888,158	652,313
Profit from discontinued operations	-	173,808
Profit for the year attributable to the owners	888,158	826,121
Earnings per share from continuing operations		
Basic	1.83p	1.33p
Diluted	1.82p	1.32p
Earnings per share from continuing and discontinued operations		
Basic	1.83p	1.69p
Diluted	1.82p	1.68p

Source: **Red24** plc Final Results

Balance Sheet as at 31 March 2015

	Group 2015 £	Group 2014 £
Assets		
Non-current assets		
Intangible assets	432,335	280,106
Property, plant & equipment	756,170	743,369
Investments	-	372,000
Deferred tax assets	51,315	35,800
Trade and other receivables	6,490	13,981
	1,246,310	1,445,256
Current assets		
Trade and other receivables	905,501	1,264,321
Cash and cash equivalents	3,417,956	2,302,577
	4,323,457	3,566,898
Assets classified as held for sale	250,000	-
Total assets	5,819,767	5,012,154
Capital and reserves		
Called up share capital	489,834	489,834
Share premium account	223,652	223,652
Other reserves	-79,616	54,100
Revaluation reserves	19,173	3,297
Retained Earnings	3,623,564	2,936,454
Equity attributable to owners	4,276,607	3,707,337
Non-current liabilities		
Deferred tax liabilities	43,549	4,902
Borrowings	215,370	240,726
	258,919	245,628
Current liabilities		
Trade and other payables	1,180,485	887,325
Corporation tax	86,350	154,215
Borrowings	17,406	17,649
	1,284,241	1,059,189
Total equity and liabilities	5,819,767	5,012,154

Source: Red24 plc Final Results

Cash flow statement for the year ended 31 March 2015

	Group 2015 £	Group 2014 £
Cash generated from operating activities	1,642,496	1,087,079
Investing activities		
Interest received	13,211	4,498
Dividend received	-	-
Investment in subsidiary	-	-
Trade investment	122,000	-5,032
Purchase of intangibles	-217,020	-103,684
Purchase of property, plant & equipment	-46,017	-73,473
Cash disposed of with subsidiary	-	-270,355
Net cash (used in)/generated from investing activities	-127,826	-448,046
Financing activities		
Dividends paid	-222,218	-205,728
Interest paid	-24,017	-29,010
Purchase of own shares	-121,586	-
Bank loans repaid	-19,651	-75,402
Net cash used in financing activities	-387,472	-310,140
Net increase in cash and cash equivalents	1,127,198	328,893
Cash and cash equivalents at the beginning of the year	2,302,577	2,048,675
Effect of foreign exchange rate changes	-11,819	-74,991
Cash and cash equivalents at the end of the year	3,417,956	2,302,577

Source: Red24 plc Final Results

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